



## **CRS Report for Congress**

# **U.S.-European Union Relations and the 2007 Summit**

Raymond Ahearn, Kristin Archick, and Paul Belkin  
Foreign Affairs, Defense, and Trade Division

### **Summary**

The U.S. Congress and successive U.S. administrations have supported the European Union (EU) and the process of European integration as ways to foster a stable Europe, democratic states, and strong trading partners. In recent years, a number of trade and foreign policy conflicts have strained the U.S.-EU relationship. Since the divisive dispute over Iraq in 2003, however, both the United States and the EU have sought to improve cooperation and demonstrate a renewed commitment to partnership in tackling global challenges. This report evaluates current issues in the U.S.-EU relationship ahead of the annual U.S.-EU summit on April 30, 2007, in Washington, DC. It will be updated as events warrant. Also see CRS Report RS21372, *The European Union: Questions and Answers*, by Kristin Archick, and CRS Report RL30732, *Trade Conflict and U.S.-European Union Economic Relationship*, by Raymond Ahearn.

### **U.S.-EU Relations: Background**

The European Union (EU) is a treaty-based, institutional framework that defines and manages economic and political cooperation among its 27 member states (Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom). The Union is the latest stage in a process of European integration begun after World War II to promote peace and economic prosperity in Europe. This European integration project has evolved over the last decade from encompassing primarily economic sectors to include developing a common foreign policy, an EU defense arm, and closer police and judicial cooperation.

The U.S. Congress and successive U.S. administrations have supported the EU project since its inception as a way to foster a stable Europe, democratic states, and strong trading partners. The United States has welcomed EU efforts since the end of the Cold War to expand the political and economic benefits of membership to central and eastern Europe, and supports the EU aspirations of Turkey and the western Balkan states. The United States and the EU share a huge and mutually beneficial economic relationship.

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Two-way flows of goods, services, and foreign investment now exceed \$1.0 trillion on an annual basis, and the total stock of two-way direct investment is over \$1.9 trillion.

Nevertheless, the U.S.-EU relationship has been challenged in recent years as numerous trade and foreign policy conflicts have emerged. The 2003 crisis over Iraq, which bitterly divided the EU and severely strained U.S.-EU relations, is most notable, but the list of disagreements has been wide and varied. Although Europeans are not monolithic in their views, many EU member states have objected to at least some elements of U.S. policy on issues ranging from the Israeli-Palestinian conflict to U.S. treatment of terrorist detainees to climate change and aircraft subsidies. Since 2003, however, both sides have made efforts to improve relations, and successive U.S.-EU summits have sought to emphasize areas of cooperation and partnership. At the same time, challenges and some tensions remain in the U.S.-EU relationship.

### **Current Issues Ahead of the U.S.-EU April 2007 Summit**

U.S.-EU summits are held annually; the next one is scheduled for April 30, 2007, in Washington, DC. President Bush, leading the U.S. side, will meet with Chancellor Angela Merkel of Germany, which currently holds the EU's rotating six-month presidency, and European Commission President José Manuel Barroso, among others from the EU side. As in previous years, the summit declaration is likely to highlight U.S.-EU foreign policy cooperation on a wide range of global challenges, from Kosovo to Afghanistan to Darfur. Summit deliverables are expected to include measures to deepen transatlantic economic ties and the signing of a U.S.-EU air transport agreement. Other key issues in U.S.-EU relations that may figure prominently in summit discussions are the Doha Round of multilateral trade negotiations; energy security and climate change; the Middle East, including Iran; counterterrorism and human rights concerns; and the U.S. visa waiver program.

**Transatlantic Marketplace Initiative.** Upon assuming the EU Presidency in January 2007, Germany's Chancellor Angela Merkel proposed a new initiative to enhance and deepen the transatlantic economic relationship. The proposal advocates further liberalizing transatlantic trade and investment barriers and reducing non-tariff and regulatory barriers to trade. The aim of such efforts is to lower costs to businesses on both sides of the Atlantic and to facilitate higher levels of economic growth. Since the establishment of the New Transatlantic Agenda in 1995, a number of initiatives have attempted to remove remaining non-tariff and regulatory barriers to trade. Although each successive initiative has made some progress towards reducing regulatory burdens, both European and U.S. companies heavily engaged in the transatlantic marketplace argue that the results have not proved materially significant. In a departure from these past efforts that relied substantially on voluntary and non-binding dialogues among regulators with political-level endorsement, the new Merkel initiative proposes creating an overarching framework to provide greater commitment on the part of political leaders and greater accountability on the part of regulators. According to *Business Europe*, the EU's main business trade association, this would require legislators and officials to take into account

how new laws and regulations affect the transatlantic marketplace.<sup>1</sup> Merkel's proposal would also cover issues such as public procurement, intellectual property, energy and the environment, financial markets and security, and innovation.

Although there appears to be strong support for the goals of the Merkel initiative, much debate is expected before and at the Summit on what new steps to take and new institutions to establish. On both the U.S. and EU sides, many policymakers are likely to have reservations regarding any new arrangements or steps that appear to replace informal dialogues among regulators with binding agreements. Agreement may be more likely on the need to better understand the types and costs of regulatory barriers that exist today industry-by-industry. On the basis of this information, a discussion of next steps and possible deadlines to move regulatory cooperation forward could be initiated. But transatlantic differences in public values over issues such as health safety and environmental protection remain large, and combined with divergent regulatory objectives and approaches, the goal of reducing regulatory barriers through harmonization efforts and improved cooperation remains a difficult target.

**Air Transport Agreement.** An aviation agreement — Open Skies Plus — between the United States and EU is expected to be signed at the April 30 summit. The agreement, which has been under negotiation for four years, will substantially liberalize the transatlantic air services market. In its current form, congressional approval will not be required. The agreement will allow U.S. and EU airlines to fly between any city in the EU and any city in the United States with no restrictions on the number of flights, routes, or prices. It also will open to competition London's Heathrow Airport, where landing rights have been restricted to two British and two U.S. carriers. In addition, the agreement provides some "enhancements" or additional foreign direct investment opportunities in each other's airlines.

Open Skies Plus is slated to take effect in March 2008. The European Commission predicts that it will lower airline fares on transatlantic travel, expand the number of passengers over the next five years, and create 80,000 new jobs. But the agreement is not without controversy. Many Europeans argue that it is not balanced because it does not give European carriers the right to fly between U.S. cities and maintains limits on EU ownership of U.S. airlines. Although most U.S. airlines support the agreement, the major U.S. unions representing pilots, machinists, flight attendants, and baggage handlers oppose it on the grounds that it will lead to further erosion of jobs, benefits, and wages.<sup>2</sup>

**Doha Round.** The World Trade Organization's (WTO) Doha Development Round of multilateral trade negotiations has been suspended since July 2006. The round, which seeks to liberalize world trade flows and provide a boost to development and the world economy, has been stymied by persistent differences among the United States, the EU, and developing countries on major issues such as agriculture and services. Agreement between the EU and U.S. has been key to the conclusion of previous multilateral trade rounds. Accordingly, an effort could be made at the Summit to get the two economic superpowers to pledge best efforts to resolve their differences and bring the Doha Round to a successful conclusion by early 2008. However, trade negotiators from the two sides

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<sup>1</sup> Position Paper on a Transatlantic Framework Agreement, Business Europe, Mar. 1, 2007.

<sup>2</sup> "Is Open Skies Open Season on Union Jobs," *Pacific Business News*, Mar. 26, 2007.

face a much more complicated task today in getting the rest of the world to accept any agreement the United States and the EU might reach. Developing countries in particular are much more vociferous in their expectations and demands than they were in previous multilateral trade talks.

**Energy Security and Climate Change.** At their March 2007 summit meeting, European leaders agreed to implement an EU energy policy focused largely on slowing global climate change. In addition to establishing binding targets for the use of renewable energy and biofuels, EU members committed to cut greenhouse gas emissions by at least 20% compared to 1990 levels by 2020. Building on this agreement, European officials are reportedly seeking U.S. support for an international treaty regulating greenhouse gas emissions after 2012, when the U.N. Kyoto Protocol is set to expire, and for an international market-based carbon emissions credit trading system. The United States is not party to the Kyoto Protocol, and U.S. officials appear reluctant to commit to global regulation; instead, they advocate transatlantic cooperation to promote alternative and clean energy technology. In light of the differences on global climate change regulation, the United States and EU are expected to use the April 2007 summit to launch initiatives jointly promoting technological advances in biofuels, energy efficiency, methane recovery, and clean coal and carbon capture and storage. Although European officials agree with the United States that these technologies should help to improve transatlantic energy security and to mitigate the negative effects of climate change, they are reportedly disappointed with a perceived U.S. reluctance to pursue international emissions and energy efficiency targets. U.S. officials point out that from 2000-2004, carbon dioxide emissions increased at a faster rate in the EU than in the United States and so argue that the U.S. approach, based on fostering technological innovation as opposed to binding regulation, is proving more effective.<sup>3</sup>

At the last U.S.-EU Summit in June 2006, U.S. and European leaders committed to promoting cooperation on energy security, climate change, and sustainable development. The parties established three institutional mechanisms to facilitate this cooperation: an annual strategic review of U.S.-EU energy cooperation; a U.S.-EU High Level Dialogue on Climate Change, Clean Energy and Sustainable Development; and a U.S.-EU Energy CEO Forum. Each forum has convened once since the 2006 summit. However, most observers agree that little if any tangible progress has been made in advancing transatlantic cooperation in this area. U.S. and European officials appear confident, however, that the 2007 Summit will result in more concrete commitments to jointly promote clean and alternative energy production technologies.

**The Middle East.** Over the last few years, the United States and many EU members have differed sharply on policies toward Iraq, Iran, the Israeli-Palestinian conflict, and democracy promotion in the Middle East. Recently, however, the two sides seem to have found more common ground on some of these issues. EU officials continue to urge the Bush Administration to “do more” to get Israeli-Palestinian negotiations back on track, but appear encouraged by renewed U.S. diplomatic initiatives and note that Washington has backed Germany’s efforts, as part of its EU presidency, to revitalize the

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<sup>3</sup> “EU and U.S. Head for Climate Change Clash,” *European Voice*, Mar. 29, 2007; Discussions with U.S. and German officials. Also see CRS Report RL33636, *The European Union’s Energy Security Challenges*, by Paul Belkin and Vince Morelli.

largely stalled “road map” for a two-state solution. Washington and the EU have also managed to stay on the same page with regard to policies toward Hamas since it won a majority in the January 2006 Palestinian legislative elections. Following the Hamas-Fatah coalition agreement in March 2007, both the United States and the EU decided that they would talk to non-Hamas members of the new government but would refrain from contact with Hamas officials until the group recognizes Israel, renounces violence, and accepts prior Israeli-Palestinian accords. The United States and the EU continue to provide foreign assistance directly to the Palestinian people, rather than giving it through the coalition government; but some analysts question how long the United States and the EU will remain in lock step, suggesting that the EU may be inclined to resume direct aid to the new government sooner than the United States.<sup>4</sup>

As for Iran, the United States has intensified cooperation with France, Germany, and the UK (the “EU3”) to curtail Iran’s suspected nuclear weapons program. In December 2006, and again in March 2007, the EU3 and the United States gained U.N. Security Council approval for limited sanctions on Iran related to its nuclear work. U.S. officials have been urging EU countries to go even further by cutting off bank lending and other financial interactions; EU states have so far responded tepidly to such calls. Tensions between Iran and the West have also risen following Iran’s seizure in March 2007 of 15 British naval personnel off the Iraq/Iran coast and amid U.S. accusations that elements of the Iranian government are supporting sectarian violence in Iraq and supplying insurgents with explosives. Some Europeans still worry that Washington may ultimately conclude that diplomacy has failed to address the Iranian threat and that a military option should be considered.<sup>5</sup>

The United States and the EU have generally cooperated in providing humanitarian relief and reconstruction assistance to Lebanon, following fighting in July-August 2006 between Israel and the Lebanon-based Hezbollah. One key sticking point, however, is that the EU does not recognize Hezbollah as a terrorist organization. Also, some analysts suggest that U.S.-EU policies toward Syria could be diverging. Like the United States, the EU has called on Syria to end all interference in internal Lebanese affairs and has sought to isolate the Syrian regime since the 2005 assassination of the former Lebanese prime minister, in which Syrian involvement is suspected. But in March 2007, the EU’s top foreign policy official, Javier Solana, visited Damascus for the first time in two years in an attempt to re-engage Syria. The Bush Administration appears wary of such efforts and rejects suggestions for high-level bilateral talks with Syria on Lebanon and other Mideast challenges. Others argue that any gap between the United States and the EU on Syria is not that wide, noting that Solana has stressed that improved relations are contingent on Syria playing a more constructive role in the region and that some in the United States advocate more engagement with Syria.<sup>6</sup>

**Countering Terrorism.** Washington has welcomed EU efforts over the last few years to boost police and judicial cooperation, stem terrorist financing, and improve border controls and transport security. The EU and the United States have concluded

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<sup>4</sup> “Informal Meeting of EU Foreign Affairs Ministers,” *European Report*, Apr. 3, 2007.

<sup>5</sup> “U.S. Bid To Limit Iran Gets Wary Response,” *Wall Street Journal*, Dec. 29, 2006.

<sup>6</sup> “EU Urges Positive Mideast Role on Damascus,” *Financial Times*, Mar. 15, 2007.

several new agreements on police information-sharing, extradition, mutual legal assistance, container security, and exchanging airline passenger data. Nevertheless, some challenges remain. For example, a U.S.-EU agreement allowing European air carriers to provide U.S. authorities with passenger data has been controversial because of fears that it compromises EU citizens' privacy rights; the current deal expires in July 2007, and some caution that European Parliamentarians and civil liberty groups may try to stymie its extension. Also, some EU members continue to resist U.S. entreaties to add suspected Hamas-related charities or Hezbollah to the EU's common terrorist list.

Many Europeans also fear that the United States is losing the battle for Muslim "hearts and minds" as a result of the war with Iraq and some U.S. practices in combating terrorism. For example, EU officials have expressed a strong desire to see the detention center at Guantánamo Bay closed as soon as possible because they believe it degrades shared values regarding human rights and disregards international accords on the treatment of prisoners. President Bush has acknowledged such concerns and has expressed a desire to work with other countries to facilitate closing the detention center. In addition, Europeans have concerns about U.S. rendition policy and a CIA program to detain and question suspected terrorists outside of the United States. In February 2007, the European Parliament (EP) approved a committee report that cited a dozen European countries for involvement in U.S. rendition efforts. U.S. officials have criticized the EP's report as unbalanced and inaccurate, noting that 256 of Parliament's 785 members voted against approving the report; they also charge that allegations of U.S. wrongdoing and ongoing criminal proceedings against CIA officials in some EU member states may put counterterrorism cooperation between U.S. and European intelligence agencies at risk.<sup>7</sup>

**Visa Waiver Program (VWP).** The EU would like the U.S. VWP, which permits short-term visa free travel for business or pleasure to the United States from certain countries, to be applied to all EU members. Currently, 12 EU members (mostly newer ones from central and eastern Europe) do not qualify for the VWP due to problems meeting the program's statutory requirements. The United States prefers to address this issue on a bilateral basis. However, in part because of growing EU frustration, President Bush announced in November 2006 that he would ask Congress to modify the VWP both to allow new EU members (and other interested states) to qualify more quickly and to strengthen the program's security components. Some Members of Congress oppose expanding or even continuing the VWP because of security concerns, noting that terrorists with European citizenship have entered the United States on the VWP (UK-born Richard Reid, the airplane "shoe bomber," and French citizen Zacarias Moussaoui, the "20<sup>th</sup>" September 11 hijacker, being two examples). Other Members are more supportive of extending the VWP to new EU countries, given their roles as U.S. allies in NATO and in the fight against terrorism. In the 110<sup>th</sup> Congress, several pieces of legislation concerning the VWP have been introduced in the House and Senate; most are in line with the Bush Administration's policy aims of both expanding the VWP and enhancing its security measures. EU officials are expected to continue to press the United States to treat all 27 member states equally under the VWP.<sup>8</sup>

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<sup>7</sup> "EU Investigation of CIA Flights May Threaten Intelligence Cooperation," Associated Press, Feb. 28, 2007.

<sup>8</sup> For more information, see CRS Report RL32221, *Visa Waiver Program*, by Alison Siskin.